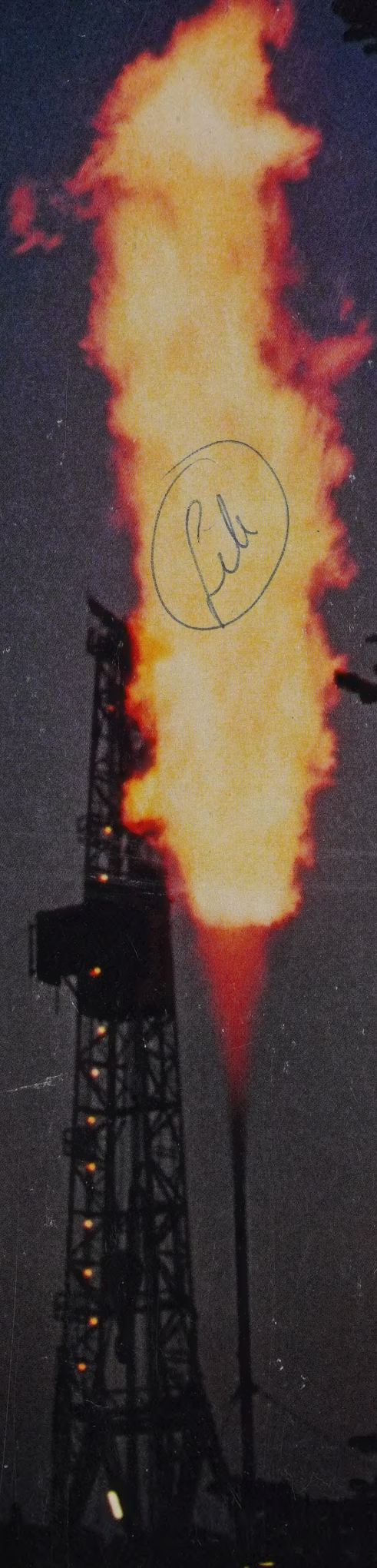


AR80

# CANADA SOUTHERN



ANNUAL REPORT  
**1980**





## CANADA SOUTHERN PETROLEUM LTD.

### Directors and Executive Officers

**John W. Buckley**, *Chairman of the Board, President and Director*  
President and a Director of Pantepec International, Inc.; and a Director of Coastal Caribbean Oils & Minerals, Ltd., and Pancoastal, Inc.

**M. A. Reasoner**, *Director and Technical Advisor*  
Associated with Canada Southern Petroleum Ltd. since its formation, he served as Vice President and General Manager until 1971.

**John W. Bush**, *Director*  
Vice President of Coastal Petroleum Company, and served as Chairman of the Interstate Commerce Commission and special advisor to the United States Senate Commerce Committee.

**Thomas W. Donlon**, *Director*  
Director of Pantepec International, Inc. and Pancoastal, Inc., and until his retirement in 1967 was Vice President in charge of foreign production for American Overseas Petroleum, Ltd.

**Benjamin W. Heath**, *Director*  
President and a Director of Coastal Caribbean Oils & Minerals, Ltd. and Magellan Petroleum Corporation; Chairman and a Director of Magellan Petroleum Australia Limited.

**Charles J. Horne**, *Vice President*  
Associated with Canada Southern Petroleum Ltd. since 1950, was elected Vice President in July 1976.

**Arthur B. O'Donnell**, *Vice President*  
President and a Director of Pancoastal, Inc. and a Vice President of Coastal Caribbean Oils & Minerals, Ltd., Magellan Petroleum Corporation, Pantepec International, Inc.

**K. E. Noble**, *Secretary-Treasurer*  
Associated with Canada Southern Petroleum Ltd. since 1955, was elected Treasurer in September 1975.

### Auditors

Arthur Young, Clarkson, Gordon & Co.

### Transfer Agents

First Jersey National Bank  
2 Montgomery Street  
Jersey City, N.J. 07303, U.S.A.

Montreal Trust Company  
15 King Street West  
Toronto, Ontario, Canada M5H 1B4

United California Bank  
Box 3667 Terminal Annex  
Los Angeles, Calif. 90051, U.S.A.

**ON THE COVER**—Photograph shows flaring of the Kotaneelee YT I-48 well during production testing operations. The well flowed gas at rates up to 50 million cubic feet per day, with an absolute open hole potential calculated at 459 million cubic feet daily.

*Photograph courtesy of  
Columbia Gas Development of Canada, Ltd.*





### To the Shareholders:

Significant developments affecting Canada Southern's property interests in the Canadian Arctic Islands and the southern Yukon Territory continued to highlight your Company's operations during the year under review.

### Production Testing Completed at Kotaneelee

On August 6 of this year, Columbia Gas Development of Canada Ltd., as operator of the Kotaneelee gas field in the Yukon Territory, announced that stimulation and production testing programs had been completed on the third development well in the field, YT I-48. The well was flowed at a stabilized rate of 50 million cubic feet per day from 233 feet of perforations between 11,988 feet and 12,598 feet. Based on the results of a series of flow rates, an absolute open flow rate for this well was calculated at 459 million cubic feet per day.

At the same time, Columbia advised that following stimulation of the first Kotaneelee field development well, YT B-38, was flowed at a stabilized rate of 70 million cubic feet per day from 192 feet of perforations made between the interval of 11,641 feet and 12,080 feet. Based on the results of a series of flow rates, the absolute open flow for this well was calculated at 265 million cubic feet per day.

Completion of the YT I-48 indicates a significant increase in proved reserves of the Kotaneelee field. Such conclusion is based on the well's indicated productivity and its 2,474 feet of gross pay section, pointing to a material increase in the potentially productive area of the field, both horizontally and vertically.

As previously reported, Columbia received approval of the Canadian National Energy Board several months ago to export 84.5 billion cubic feet of Kotaneelee gas to the United States over the next eight years. In view of the understandings reached earlier this year between Canadian and United States energy agencies with respect to the pricing mechanism for Canadian gas, it is anticipated that United States import authorizations will be granted before the end of this year or early in 1981. Kotaneelee gas currently is priced at \$4.47 (U.S.) per thousand cubic feet at the United States border.

In order to better appreciate the magnitude of the gas reservoir at Kotaneelee, the cross-section on page 2 is designed to graphically portray the field's

Dolomitic producing formation as established to date by the wells I-27, B-38, and I-48. This diagram includes specific information on drill stem and production tests of the section tested in each of these wells.

Please note that well B-38, the first to be drilled by Columbia Gas as operator of the property, tested only the interval of 445 feet from the top of the section, although it actually penetrated an additional 699 feet of the section to a total depth of 10,479 feet (sub-sea) without establishing a water level. In the case of I-48, this well was drilled 2,533 feet into the producing formation and drill stem tested significant volumes of gas at a depth of 11,581 feet (sub-sea). It thereby established a gross productive zone for this well of 2,474 feet, again without encountering the water level.

The horizontal line appearing on the cross-section at 11,581 feet (sub-sea) establishes the lowest depth that gas has been proven for production. Therefore, the portion above this line can be assumed to be the gross pay zone. It should be noted that the vertical scale of this cross-section is exaggerated on a 2:1 basis.

### Second Whitefish Well Records Large Gas Flow

As you have been advised previously, following the drilling early last year by Panarctic Oils Ltd. of the Arctic Island's Whitefish gas discovery, well H-63, that company in late 1979 commenced the drilling of the first Whitefish stepout location, well H-63A, making use of the same ice platform used in drilling the discovery well.

Earlier this year Panarctic reported that the H-63A well, the drilling of which was begun in November, 1979, had flowed gas on a drill stem test through a restricted choke from the Isachsen formation over the interval 873.5 meters to 906 meters (2,866 feet to 2,972 feet) at the rate of 7.5 million cubic feet per day, and from the deeper Awingak formation over the interval 1,672 meters to 1,698 meters (5,486 feet to 5,571 feet) at the rate of 14.5 million cubic feet per day. At that time, Panarctic advised of its plans to continue drilling the H-63A well to a total depth of approximately 3,500 meters (11,483 feet) and to fully test all hydrocarbon potential horizons which, due to time constraints, had not been included in the H-63 testing program.

On June 17, 1980, Panarctic announced that testing of the H-63A stepout had been completed. The main gas zone, the King Christian sand, was perforated over the interval 2,085 meters to 2,112 meters (6,841





## KOTANEELEE FIELD

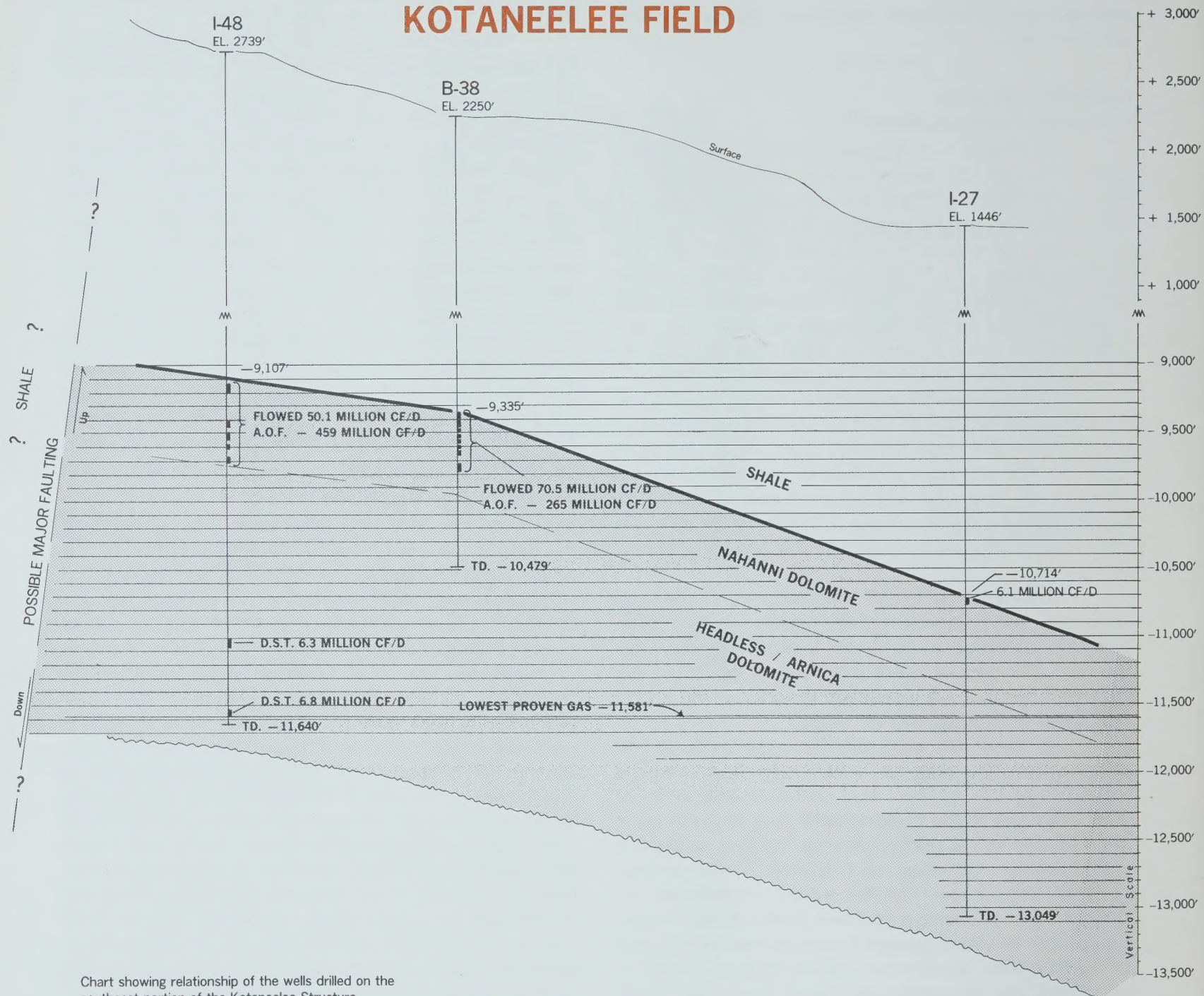
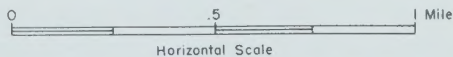


Chart showing relationship of the wells drilled on the southeast portion of the Kotaneelee Structure.

Note: All depths shown are at subsea elevations, converted to True Vertical.  
A.O.F. — Absolute Open Flow Potential







feet to 6,929 feet). Production tests of this interval, which were made through tubing, recorded flow rates up to 44 million cubic feet per day, with a calculated absolute open flow potential in this zone of 144.5 million cubic feet per day. Liquid condensate separated from the gas averaged 13 barrels to 17 barrels per million cubic feet, and no formation water was produced during the tests.

Panarctic later advised that evaluations of the King Christian zone, as well as the earlier Isachsen and Awingak formations, had been completed, following which the H-63A well was abandoned as an expendable exploratory well. In this respect, it should be noted that it is common practice for all offshore exploratory wells drilled in the Arctic Islands to be abandoned pending access to markets and adoption of suitable production methods.

It is evident from these recent developments that the future of Whitefish holds major implications for Canada Southern. According to Panarctic, the bulk of the Whitefish structure appears to be located on two federal exploratory permits: Permit 1980, site of the two Whitefish wells; and, adjoining to the west, Permit 1979 (see large map enclosed with this report). From certain interpretations of existing seismic data, the structure appears to extend well into the northern portion of Permit 3124, in which Canada Southern holds a 30 per cent carried interest. Additionally, from the locations of the two Whitefish wells, it can be assumed that portions of Canada Southern's "after-acquired" rights under the south half of Permit 1980, the southeast quarter of Permit 1979, and the northeast quarter of Permit 3227, similarly fall on the Whitefish structure. The relevance of "after-acquired" rights means that the Company has the right to acquire 50 per cent of Panarctic's 6.6 per cent interest in Whitefish after such interest is earned by Panarctic.

### **Arctic Islands Gas Transmission Projects Being Expedited**

Panarctic and the Arctic Islands consortium, comprised of Petro-Canada, the Crown corporation, and a number of Canadian companies and individuals, has reported that it achieved in the past year the highest annual increase in proved and probable reserves in its history, the total climbing from less than 14 trillion cubic feet to 16 trillion cubic feet to the end of 1979. More recently, Panarctic has been quoted in the Canadian Press as considering these reserves to be in the order of 19 trillion cubic feet. Given the current success ratio of its

Arctic Islands drilling, and even a partial fulfillment of its expectations for the vast Whitefish structure, Panarctic has forecast that proved and probable gas reserves for these High Arctic areas could reach 25 trillion cubic feet by 1981. This would exceed by a substantial margin the threshold reserve figure of 21 trillion cubic feet reportedly required to justify construction of the proposed Polar gas transmission line.

Meanwhile, sponsors of the Polar Gas Project, having expended to date some \$70 million on Arctic gas transmission research, are preparing to submit new pipeline proposals for the approval of Canada's National Energy Board either late this year or early in 1981. All options to be submitted will include a "Y" line, allowing gas to be taken both from Arctic Islands fields and from the Beaufort Sea, thence south to the TransCanada pipeline system, either in Alberta or at some point to the east. Pipelines under all proposals, it is reported, would pass through Longlac, Ontario. Project sponsors, including Petro-Canada and Panarctic, say the pipeline could be in place within seven to ten years.

Concurrently with preparations for the inception of full-scale work on the Polar Gas Project when approved, plans are continuing for the commencement of the complementary Arctic Pilot Project, now expected to begin moving gas to markets in 1986. This system is designed to produce and liquefy 225 million cubic feet of natural gas per day for transport by ice-breaking tankers from Melville Island to eastern Canada. An agreement in principle for purchase of the gas supplied by the Arctic Pilot Project has been announced by Tennessee Gas Pipeline Co., a division of Tenneco Inc., Texas Eastern Transmission Corporation, Northern Natural Gas Co., a division of Internorth Inc., and Columbia Gas Transmission Corporation. This project expects to make gas available to the companies in the United States by July, 1985. With Petro-Canada as operator, the Arctic Pilot Project's remaining sponsors include The Alberta Gas Trunk Line Co. Ltd., Dome Petroleum Ltd., and Melville Shipping Ltd.

On October 11, 1980, Trans-Canada Pipelines Ltd. announced plans for a \$2.4 billion project of its own to ship liquefied natural gas (LNG) out of the Arctic Islands. Now in the technical and economic feasibility study stage, the Trans-Canada project is considering the use of three 75,000 ton, Class 10 ice-breaking LNG tankers to move gas from the northern islands of Ellef





*Photograph above:* Panarctic A.I.E.G. Whitefish H-63A—multiple zone gas and condensate discovery drilled from an ice platform in 277 meters of water. This well is located 40 kilometers west of Loughheed Island on lands where Canada Southern has “after acquired” rights through its agreement with Panarctic Oils Ltd.

*Courtesy of Panarctic Oils & Gas, Ltd.*





Ringnes and King Christian. It would also involve the construction of a 77-kilometer pipeline on Ellef Ringnes running to a liquefaction terminal on King Christian. The Trans-Canada announcement referred to a starting date of 1986, shortly after the scheduled commencement of the Arctic Pilot Project.

#### **Australian Exploration To Begin in November**

For a number of years, Canada Southern has held a small interest in properties prospective for hydrocarbons in the Amadeus basin of central Australia where drilling to date has resulted in the discovery by others of two fields, the Mereenie oil and gas field and the Palm Valley gas field. On March 14, the Company became a participant in an Australian-Canadian consortium which presently is initiating a five-year program of exploration on some 12 million acres elsewhere in the Amadeus basin. This program, which will include extensive seismic work and the drilling of at least 10 exploratory wells, calls for an estimated expenditure in excess of \$55 million, expressed in 1980 Canadian dollars. Canada Southern holds a .0323 per cent working interest in the acreage to be explored by the consortium. The exploration program is scheduled to be commenced in November, 1980.

#### **Corporate Charter Moved to Nova Scotia**

Following shareholder approval voted at the Annual General Meeting of Shareholders on October 25, 1979, Canada Southern subsequently completed the move of its corporate charter from the Canada Business Corporations Act to that of the Companies Act, Nova Scotia. Final approvals of the move became effective June 4, 1980, and the corporate activities of the Company became subject to the laws of Nova Scotia from that date.

#### **Studies Advance for Proposed Direct Ownership Plan**

In the Special Report mailed in August, 1980, you were advised that your Company's Board of Directors has under consideration the feasibility of a plan whereby Canada Southern shareholders would become the beneficiaries of direct ownership participation in certain of the Company's oil and gas producing properties. Such direct ownership of economic units of producing properties, it is believed, might confer upon Canada Southern shareholders distinct advantages both from an economic and tax point of view.

After taking cognizance of a growing industry trend involving the extension to shareholders of more

advantageous methods of participating in the ownership of producing properties, the Board of Directors initiated a comprehensive study for the purpose of shaping a framework of requisite legal, accounting, and tax measures, giving consideration also to whatever approvals may be necessary to establish such a program for the benefit of Canada Southern shareholders. That study is now in progress.

#### **New Energy Policy**

Canada's recently announced new energy policy has gained much adverse commentary within the petroleum industry. While this policy will have a significant impact on the future development of Canada's oil and gas industry, such impact cannot be analyzed fully at this time.

#### **Other Matters**

It is with deep regret that we record the death on May 17, 1980, of Mr. Paul A. Giesinger who joined the staff of Canada Southern in 1954. At the time of his death, Mr. Giesinger filled the posts of Chief Accountant and Secretary. He will be sorely missed by his host of friends, associates, and the members of his profession.

On October 6 of this year, Mr. John W. Buckley, President and Chairman of the Board of Canada Southern, was granted a leave of absence for reasons of health. During his convalescence, Mr. Buckley's duties will be handled by the undersigned and Mr. M. A. Reasoner, a director and technical advisor to the Company.

As shareholders were advised last year, it is our feeling that your Company now has established a strong base from which to achieve future earnings growth, an accomplishment that we confidently expect will be demonstrated during the forthcoming year.

The following pages of this report include audited financial information for the year ended June 30, 1980, a petroleum acreage summary, a listing of property interests in the Panarctic agreements, and the current status of our carried interest properties.

On behalf of the Board of Directors:

**Charles J. Horne**  
Vice President

Calgary, Alberta  
October 28, 1980





# Petroleum Acreage Summary—June 30, 1980

|   | Gross<br>Acreage<br>in which<br>Interest<br>Is Held | Held Under<br>Lease | Net Acreage<br>Held Under<br>Permit | Total     |
|---|---|---------------------|-------------------------------------|-----------|
| <b>CANADA</b>                             |   |                     |                                     |           |
| <b>British Columbia</b>                   |   |                     |                                     |           |
| Pacific Agreement                         |   |                     |                                     |           |
| Working Interest .....                    | 29,909  | 5,683               |                                     | 5,683     |
| Carried Interest .....                    | 56,975  | 12,108              |                                     | 12,108    |
| Phillips Agreement-Carried Interest ..... | 190,637   | 20,493              | 4,235                               | 24,728    |
| Other                                     |   |                     |                                     |           |
| Overriding Royalty Interest .....         | 8,583   | 597                 |                                     | 597       |
| Working Interest .....                    | 18,624  | 3,172               |                                     | 3,172     |
| Carried Interest .....                    | 28,072  | 777                 |                                     | 777       |
| Total British Columbia .....              | 332,800   | 42,830              | 4,235                               | 47,065    |
| <b>Alberta</b>                            |   |                     |                                     |           |
| Overriding Royalty Interest .....         | 320   | 5                   |                                     | 5         |
| <b>Yukon &amp; Northwest Territories</b>  |   |                     |                                     |           |
| <b>Liard Basin</b>                        |   |                     |                                     |           |
| Columbia Gas Agreement                    |   |                     |                                     |           |
| Carried Interest .....                    | 73,038  | 21,911              |                                     | 21,911    |
| Atkinson Agreement                        |   |                     |                                     |           |
| Carried Interest .....                    | 101,166   | 22,763              |                                     | 22,763    |
| Dome-Pan Am Agreement                     |   |                     |                                     |           |
| Carried Interest .....                    | 62,794  | 28,258              |                                     | 28,258    |
| Other—Working Interest .....              | 12,720  | 11,448              |                                     | 11,448    |
| Total Liard Basin .....                   | 249,718   | 84,380              |                                     | 84,380    |
| <b>Arctic Islands</b>                     |   |                     |                                     |           |
| Panarctic Agreements                      |   |                     |                                     |           |
| (see table p. 7 )                         |   |                     |                                     |           |
| TriCee Tee .....                          | 1,557,091   | 2,905               | 69,843                              | 72,388    |
| Other .....                               | 3,237,814   | —                   | 959,708                             | 959,708   |
| Total Panarctic Agreements ..             | 4,794,905   | 2,905               | 1,029,191                           | 1,032,096 |
| Overriding Royalty Interest .....         | 26,967  |                     | 388                                 | 388       |
| B.P. Sub-Farmout .....                    | 58,659  |                     | 11,261                              | 11,261    |
| Total Arctic Islands .....                | 4,880,531   | 2,905               | 1,040,840                           | 1,043,745 |
| Total Canada .....                        | 5,463,369   | 130,120             | 1,045,075                           | 1,175,195 |
| <b>AUSTRALIA</b>                          |   |                     |                                     |           |
| .....                                     | 5,947,697   | —                   | 3,848                               | 3,848     |
| Total .....                               | 11,411,066  | 130,120             | 1,048,923                           | 1,179,043 |





## Company-Interest Properties in Panarctic Agreements—June 30, 1980

| <u>Properties</u>  | <u>Gross Acres</u> | <u>Interest retained by Company</u> |                  |
|--|--------------------|-------------------------------------|------------------|
|  |                    | <u>Carried Interest</u>             | <u>Net Acres</u> |
| <b>TriCeeTee Agreement</b>   |                    |                                     |                  |
| Prince Patrick, Melville, Emerald, Vanier,<br>Cameron, Ellef Ringnes, Cornwall . . . . . | 1,557,091          | 5.0% <sup>(1)</sup>                 | 77,854           |
| <b>Canada Southern-Clark-Skelly Agreement</b>  |                    |                                     |                  |
| Eight Bears . . . . .  | 57,210             | 6.0%                                | 3,433            |
| <b>Canada Southern</b>   |                    |                                     |                  |
| Ellesmere . . . . .  | 22,482             | 15.0%                               | 3,372            |
| Offshore, Sverdrup Basin . . . . .   | 3,158,122          | 30.0% <sup>(2)</sup>                | 947,437          |
|  | <u>4,794,905</u>   |                                     | <u>1,032,096</u> |

<sup>(1)</sup>Does not include the Company's additional interest to be acquired under the sub-farmout agreement covering permits on Vanier Island.

<sup>(2)</sup>Area divided into six blocks, each converted block by block to 30.0% carried interest, which may be reconverted block by block to 30.0% working interest at the Company's option.

### Status of Carried Interest Agreements as at June 30, 1980

(excluding Panarctic agreements)

|                                    | <u>1979</u>               |                            | <u>1980</u>               |                            | <u>Cumulative to June 30, 1980</u> |                            |                         | <u>Company Interest</u> |  |
|------------------------------------|---------------------------|----------------------------|---------------------------|----------------------------|------------------------------------|----------------------------|-------------------------|-------------------------|--|
|                                    | <u>Gross Expenditures</u> | <u>Production Proceeds</u> | <u>Gross Expenditures</u> | <u>Production Proceeds</u> | <u>Gross Expenditures</u>          | <u>Production Proceeds</u> | <u>Net Expenditures</u> | <u>%</u>                | <u>Cost to Convert to a Working Interest</u> |
| <b>Pacific Agreement</b>           |                           |                            |                           |                            |                                    |                            |                         |                         |  |
| Ex-Permits 100-104 . . . . .       | \$ 1,021,521              | \$2,514,119                | \$ 1,506,425              | \$4,420,522                | \$21,019,302                       | \$27,712,200               | \$ (6,692,898)          | 21.25                   | *  |
| Ex-Permit 135 . . . . .            | 104,479                   | 1,218,396                  | 499,595                   | 1,364,970                  | 8,322,883                          | 12,163,668                 | (3,840,785)             | 1.67                    | **   |
| <b>Phillips Agreement</b>          |                           |                            |                           |                            |                                    |                            |                         |                         |  |
| Ex-Permit 149 . . . . .            | 53,842                    | (2,652)                    | 108,670                   | (2,193)                    | 5,976,428                          | 228,945                    | 5,747,483               | 50.00                   | \$ 2,873,742                                 |
| Ex-Permit 178 . . . . .            | 55,554                    | 1,739,467                  | 149,736                   | 1,429,607                  | 3,647,297                          | 9,801,129                  | (6,153,832)             | 27.75                   | ***  |
| Ex-Permit 224 . . . . .            | 140,709                   | 2,622,486                  | 283,836                   | 2,506,866                  | 8,101,080                          | 23,314,083                 | (15,213,003)            | 27.75                   | ****   |
| <b>Dome-Pan American Agreement</b> |                           |                            |                           |                            |                                    |                            |                         |                         |  |
| Ex. Ps. 1007,1132,1133 . . . . .   | 13,850,198                |                            | 12,633,894                | 2,010,417                  | 40,604,786                         | 2,010,417                  | 38,594,369              | 30.00                   | 11,578,311                                   |
| Ex. Ps. 1136,2713,1153 . . . . .   | 27,930                    |                            | 27,930                    |                            | 658,402                            |                            | 658,402                 | 45.00                   | 296,281                                      |
| Ex. Ps. 1149,1156 . . . . .        | 13,452                    |                            | 13,451                    |                            | 1,181,786                          |                            | 1,181,786               | 45.00                   | 531,804                                      |

\*Ex-Permits 100-104 net proceeds from production became payable to the Company in March, 1978, and by June 30, 1980 the Company's share amounted to \$1,422,241, including \$317,177 in fiscal 79 and \$619,246 in fiscal 80.

\*\*Ex-Permit 135 net proceeds from production became payable to the Company in January, 1977, and by June 30, 1980 the Company's share amounted to \$64,014, including \$18,556 in fiscal 79 and \$14,423 in fiscal 80.

\*\*\*Ex-Permit 178 net proceeds from production became payable to the Company in July, 1970, and by June 30, 1980 the Company's share amounted to \$1,692,174, including \$456,040 in fiscal 79 and \$348,672 in fiscal 80.

\*\*\*\*Ex-Permit 224 net proceeds from production became payable to the Company in December, 1968, and by June 30, 1980 the Company's share amounted to \$4,191,443, including \$673,684 in fiscal 79 and \$609,580 in fiscal 80.





## Consolidated Balance Sheets

(Expressed in Canadian dollars)

June 30, 1980 and 1979

|   | 1980                | 1979*               |
|---|---------------------|---------------------|
| <b>Assets</b>   |                     |                     |
| Current assets:   |                     |                     |
| Cash .....  | \$ 122,099          | \$ 99,709           |
| Term deposits .....   | 1,120,000           | 734,975             |
| Accounts receivable and other current assets .....  | 262,029             | 332,054             |
| Total current assets .....  | 1,504,128           | 1,166,738           |
| Oil and gas properties, at cost, using the full cost method (Notes 1 and 2):  |                     |                     |
| Costs being amortized .....   | 5,368,373           | 4,780,280           |
| Less accumulated amortization .....   | 1,633,004           | 1,378,674           |
|   | 3,735,369           | 3,401,606           |
| Costs not being amortized .....   | 4,349,539           | 4,330,396           |
|   | 8,084,908           | 7,732,002           |
| Mineral properties, at cost (Notes 1 and 2) .....   | 232,370             | 232,370             |
| Equipment, at cost less accumulated depreciation of \$51,360 and \$46,047 at June 30, 1980 and 1979, respectively ..... | 19,769              | 21,806              |
| Deferred charge .....   | 62,612              | 87,302              |
|   | <u>\$ 9,903,787</u> | <u>\$ 9,240,218</u> |
| <b>Liabilities and Capital</b>  |                     |                     |
| Current liabilities:  |                     |                     |
| Accounts payable and accrued liabilities:   |                     |                     |
| Accrued legal .....   | \$ 64,628           | \$ 53,624           |
| Other .....   | 152,907             | 292,002             |
| Total current liabilities .....   | 217,535             | 345,626             |
| Capital (Note 5):   |                     |                     |
| Capital stock, par value \$1 per share:   |                     |                     |
| Authorized 15,000,000 shares  |                     |                     |
| Outstanding 8,937,965 and 8,883,465 shares, respectively .....  | 8,937,965           | 8,883,465           |
| Capital in excess of par value .....  | 14,764,543          | 14,562,294          |
|   | 23,702,508          | 23,445,759          |
| Accumulated deficit .....   | (14,016,256)        | (14,551,167)        |
|   | 9,686,252           | 8,894,592           |
|   | <u>\$ 9,903,787</u> | <u>\$ 9,240,218</u> |

\*Restated (Note 1)

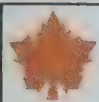
See accompanying notes.

On behalf of the Board:

/s/ John W. Buckley, Director

/s/ Benjamin W. Heath, Director





# Consolidated Statement of Operations and Accumulated Deficit (Note 1)

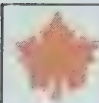
(Expressed in Canadian dollars)

|  | Year ended June 30,   |                       |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 1976*                 | 1977*                 | 1978*                 | 1979*                 | 1980                  |
| <b>Income:</b>   |                       |                       |                       |                       |                       |
| Proceeds under carried interest agreements (Note 2) .....  | \$ 241,430            | \$ 233,582            | \$ 1,549,293          | \$ 1,468,691          | \$ 1,593,050          |
| Interest .....   | 28,430                | 13,999                | 16,145                | 56,303                | 96,565                |
| Oil and gas sales .....  | 75,785                | 144,693               | 309,404               | 223,903               | 262,687               |
| Gains and (losses) on sales of equipment and properties .....  | 335,583               | (1,390)               | —                     | —                     | —                     |
| Rent and other .....   | 27,757                | 413                   | —                     | —                     | —                     |
|  | <u>708,985</u>        | <u>391,297</u>        | <u>1,874,842</u>      | <u>1,748,897</u>      | <u>1,952,302</u>      |
| <b>Costs and expenses:</b>   |                       |                       |                       |                       |                       |
| General and administrative (Notes 3 and 5) .....   | 816,786               | 739,988               | 830,913               | 858,197               | 1,090,169             |
| Abandonments (Note 2) .....  | 223,891               | 55                    | —                     | 203,702               | —                     |
| Depletion, depreciation and amortization .....   | 107,105               | 130,937               | 166,548               | 230,471               | 259,643               |
| Lease operating costs .....  | 22,220                | 28,447                | 19,258                | 36,478                | 42,221                |
| Write-off of investments .....   | 143,947               | 310,224               | 2,154                 | (15,994)              | (32,648)              |
| Rent .....   | 23,393                | 29,078                | 34,987                | 41,569                | 58,006                |
|  | <u>1,337,342</u>      | <u>1,238,729</u>      | <u>1,053,860</u>      | <u>1,354,423</u>      | <u>1,417,391</u>      |
| Income (loss) before taxes on income and extraordinary item .....  | (628,357)             | (847,432)             | 820,982               | 394,474               | 534,911               |
| Provision for taxes on income (Note 6) .....   | —                     | —                     | 255,000               | 209,000               | 205,000               |
| Income (loss) before extraordinary item .....  | (628,357)             | (847,432)             | 565,982               | 185,474               | 329,911               |
| Tax benefit realized from carryforward of exploration, development and lease acquisition costs not claimed in prior years (Note 6) ..... | —                     | —                     | 255,000               | 209,000               | 205,000               |
| Net income (loss) .....  | (628,357)             | (847,432)             | 820,982               | 394,474               | 534,911               |
| Accumulated deficit—beginning of year .....  | (14,290,834)          | (14,919,191)          | (15,766,623)          | (14,945,641)          | (14,551,167)          |
| Accumulated deficit—end of year .....  | <u>\$(14,919,191)</u> | <u>\$(15,766,623)</u> | <u>\$(14,945,641)</u> | <u>\$(14,551,167)</u> | <u>\$(14,016,256)</u> |
| Average number of shares outstanding .....   | <u>8,764,965</u>      | <u>8,810,273</u>      | <u>8,851,465</u>      | <u>8,873,619</u>      | <u>8,904,427</u>      |
| <b>Per share based on average number of shares outstanding during the period:</b>  |                       |                       |                       |                       |                       |
| Income (loss) before extraordinary item .....  | \$(.07)               | \$(.10)               | \$.06                 | \$.02                 | \$.04                 |
| Extraordinary item .....   | —                     | —                     | .03                   | .02                   | .02                   |
| Net income (loss) .....  | <u>\$(.07)</u>        | <u>\$(.10)</u>        | <u>\$.09</u>          | <u>\$.04</u>          | <u>\$.06</u>          |

\*Restated (Note 1)

See accompanying notes.





## Consolidated Statement of Changes in Financial Position

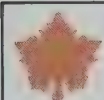
(Expressed in Canadian dollars)

|   | Year ended June 30, |             |            |            |            |
|---|---------------------|-------------|------------|------------|------------|
|   | 1976*               | 1977*       | 1978*      | 1979*      | 1980       |
| Source of working capital:  |                     |             |            |            |            |
| Net income (loss) .....   | \$(628,357)         | \$(847,432) | \$ 820,982 | \$ 394,474 | \$ 534,911 |
| Charges (credits) to revenues not involving outlay of working capital in current periods: |                     |             |            |            |            |
| Depreciation, depletion and amortization ....   | 107,105             | 130,937     | 166,548    | 244,514    | 259,643    |
| Write-off of investments .....  | 142,769             | 308,999     | —          | —          | —          |
| Abandonments .....  | 223,891             | —           | —          | 200,211    | —          |
| (Gains) and losses on sales of equipment and properties .....                             | (335,583)           | 1,390       | —          | —          | —          |
| Working capital (used in) provided by operations .....                                    | (490,175)           | (406,106)   | 987,530    | 839,199    | 794,554    |
| Net proceeds from sales of capital stock .....  | —                   | 177,454     | —          | —          | —          |
| Exercise of stock options .....   | —                   | —           | —          | 137,600    | 256,749    |
| Proceeds from sales of equipment or properties .....                                      | 588,765             | 281         | 115,000    | —          | —          |
| Bank loan .....   | —                   | 392,000     | —          | —          | —          |
|   | 98,590              | 163,629     | 1,102,530  | 976,799    | 1,051,303  |
| Disposition of working capital:   |                     |             |            |            |            |
| Additions to oil, gas and mineral properties .....  | 247,133             | 204,566     | 249,497    | 641,616    | 607,236    |
| Increase in investments .....   | 10,204              | 16,625      | —          | —          | —          |
| Expenses of capital stock offerings .....   | 103,616             | —           | —          | —          | —          |
| Decrease in bank loan (noncurrent) .....  | —                   | —           | 144,000    | 248,000    | —          |
| Deferred charge .....   | —                   | —           | —          | 87,302     | (24,690)   |
| Other .....   | 8,091               | 329         | 15,982     | 8,769      | 3,276      |
|   | 369,044             | 221,520     | 409,479    | 985,687    | 585,822    |
| Increase (decrease) in working capital .....  | \$(270,454)         | \$ (57,891) | \$ 693,051 | \$ (8,888) | \$ 465,481 |
| Increase (decrease) in working capital by component:                                      |                     |             |            |            |            |
| Cash .....  | \$ (8,168)          | \$ (28,396) | \$ 61,383  | \$ 15,587  | \$ 22,390  |
| Term deposits .....   | (310,025)           | 100,000     | 30,000     | 410,000    | 385,025    |
| Accounts receivable and other current assets .....  | 10,205              | 42,829      | 602,803    | (403,297)  | (70,025)   |
| Bank loan payable .....   | —                   | (99,688)    | (36,000)   | 144,000    | —          |
| Accounts payable and accrued liabilities .....  | 37,534              | (72,636)    | 34,865     | (175,178)  | 128,091    |
| Increase (decrease) in working capital .....  | \$(270,454)         | \$ (57,891) | \$ 693,051 | \$ (8,888) | \$ 465,481 |

\*Restated (Note 1)

See accompanying notes.





## Consolidated Statement of Capital Stock and Capital in Excess of Par Value

(Expressed in Canadian dollars)

Years ended June 30, 1979 and 1980

|                                 | Number<br>of<br>shares | Capital<br>stock, \$1<br>par value | Capital in<br>excess of<br>par value | Total        |
|---------------------------------|------------------------|------------------------------------|--------------------------------------|--------------|
| Balance at June 30, 1978 .....  | 8,851,465              | \$8,851,465                        | \$14,456,694                         | \$23,308,159 |
| Exercise of stock options ..... | 32,000                 | 32,000                             | 105,600                              | 137,600      |
| Balance at June 30, 1979 .....  | 8,883,465              | 8,883,465                          | 14,562,294                           | 23,445,759   |
| Exercise of stock options ..... | 54,500                 | 54,500                             | 202,249                              | 256,749      |
| Balance at June 30, 1980 .....  | 8,937,965              | \$8,937,965                        | \$14,764,543                         | \$23,702,508 |

See accompanying notes.

## Notes to Financial Statements

(Expressed in Canadian dollars)

June 30, 1980

### 1. Summary of significant accounting policies and current developments

The accompanying consolidated financial statements include the accounts of Canada Southern Petroleum Ltd. (Canada Southern) and its wholly-owned subsidiary, Canpet, Inc., hereafter referred to collectively as the Company.

The Company, which is engaged primarily in one industry, exploration for and development of oil and gas properties, principally in Canada, follows the full cost method of accounting for oil and gas properties, whereby all costs associated with the exploration for and the development of oil and gas reserves are capitalized. Proceeds received from disposal of properties are credited against accumulated costs. Depletion of net costs accumulated in the Canada cost center (excluding the Arctic Islands and Kotaneelee Area) is provided on the composite unit-of-production method based on estimated recoverable proven reserves. Expenditures incurred in the Arctic Islands and Kotaneelee Area have been excluded from the capitalized costs in the Canada cost center to be amortized pending the commencement of payouts, if any, of the Company's carried interests in those major development projects (Note 2).

The Securities and Exchange Commission (SEC) has recommended development of an accounting method that recognizes valuations of proved oil and gas reserves in the balance sheets and income statements of oil and gas producers. Until the new method Reserve Recognition Accounting (RRA) is applicable to primary financial statements, the SEC will allow either successful efforts accounting as prescribed by Statement of Financial Accounting Standards (SFAS) No. 19 or a form of full cost accounting as prescribed by the SEC. According to

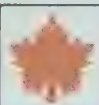
the SEC, "The feasibility of RRA, however, is not assured because of the inherent imprecision of reserve valuations and, therefore, the ultimate method of reporting is not yet determinable." The Company during the fiscal year ended June 30, 1980 changed its method to conform to the form of full cost accounting prescribed by the SEC. As a result of the change, the carrying value of oil and gas properties has been reduced and accumulated deficit has been increased by \$424,703 at June 30, 1979. The consolidated statement of operations and accumulated deficit and the consolidated statement of changes in financial position have been restated to give retroactive effect to the change. The effect of this change on net income (loss) previously reported is as follows:

| Period                   | Decrease<br>in net income | Decrease in net income<br>per share of<br>capital stock |
|--------------------------|---------------------------|---|
| Year ended June 30, 1976 | \$ 53,533                 | \$—   |
| 1977                     | 98,990                    | .02   |
| 1978                     | 117,435                   | .02   |
| 1979                     | 98,551                    | .02   |

Acquisition costs, exploration and development expenditures and other costs related to mineral properties are capitalized until such time as it is determined whether commercially exploitable reserves exist. Costs associated with properties which are determined to be unsuccessful or are abandoned are charged to income. Costs associated with commercially exploitable prospects will be amortized or depreciated on a unit-of-production method.

Depreciation has been provided for equipment other than well equipment by the straight-line method based on estimated useful lives. Depreciation of well equipment and amortization of intangible drilling costs





## 1. Summary of significant accounting policies and current developments (cont'd)

pertaining to producing wells are computed by the unit-of-production method.

Transactions for settlement in U.S. dollars have been converted at average monthly exchange rates. During the five years ended June 30, 1980, exchange gains and losses have not been significant.

For Canadian income tax purposes, the Company may claim as a tax deduction exploration, development and lease acquisition costs in the year incurred, and capital cost allowances (depreciation) in amounts which may exceed those provided in the accounts (see Note 6).

In October, 1979, the Company became subject to the Canadian Business Corporations Act and, effective June 4, 1980, was continued under the Nova Scotia Companies Act.

The Securities and Exchange Commission issued an order dated April 11, 1978 directing that an examination and private investigation by the Staff of the Commission be made of the Company, The Catawba Corporation ("Catawba") (see Note 3) and Catawba's other client companies. The SEC has expressed interest in investigating, among other things, the Australian hydrocarbon reserves of the various companies, the relationship between those companies and Catawba and the fees and royalties paid by them to Catawba to determine whether possible violations of the Securities Exchange Act of 1934 and/or the Investment Company Act of 1940 may have occurred. During fiscal 1979 and 1980 the Company furnished the Commission with certain documents requested by its Staff pursuant to a subpoena issued by the Commission, and certain directors and officers of the Company voluntarily appeared before the Commission to discuss matters relating to the investigation.

Although the Commission has not formally advised the Company or any of its officers or directors of its conclusions or recommendations, the Company has been advised by the staff of the Commission that the investigation

has been substantially completed and it is likely that the staff will recommend to the Commission that a civil injunctive action be commenced against the Company and certain of its officers and directors. The Company believes that any enforcement action which the commission might bring upon such recommendation will not have a material adverse effect upon the Company's business or financial position.

## 2. Properties and related exploratory and other expenses

Oil and gas properties by cost center are as follows:

|   | 1980               | 1979               |
|---|--------------------|--------------------|
| Canada:                                 |                    |                    |
| Costs being amortized .                 | \$5,368,373        | \$4,780,280        |
| Less accumulated amortization . . . . . | 1,633,004          | 1,378,674          |
|   | 3,735,369          | 3,401,606          |
| Costs not being amortized:              |                    |                    |
| Arctic Islands. . . . .                 | 2,794,571          | 2,776,020          |
| Kotanelee Area. . . . .                 | 1,431,464          | 1,430,872          |
| Total . . . . .                         | 7,961,404          | 7,608,498          |
| Australia:                              |                    |                    |
| (Costs not being amortized). . . . .    | 123,504            | 123,504            |
|   | <u>\$8,084,908</u> | <u>\$7,732,002</u> |

Current valuations of proved reserves exceed related book value plus expected development costs.

Amounts represented by oil and gas properties and mineral properties, aggregating \$3,150,445 and \$3,131,894 at June 30, 1980 and 1979, respectively, are substantially unexplored or undeveloped.

Costs incurred in oil and gas producing activities (all in Canada) in which the Company has working interests were set forth below:

| Year ended June 30, | Property acquisition costs | Exploration costs | Development costs | Production costs | Aggregate depreciation depletion, amortization and valuation provisions |
|---------------------|----------------------------|-------------------|-------------------|------------------|---|
| 1979                | —                          | \$714,485         | \$ 20,163         | \$36,478         | \$222,668   |
| 1980                | —                          | 271,348           | 335,888           | 42,221           | 254,330   |

These costs exclude costs relating to carried interests.

Amortization expense per equivalent physical unit of production for fiscal 1980 was \$.72.

The Company's properties and property interests are located in British Columbia, the Yukon and Northwest Territories, the Arctic Islands and Alberta in Canada, and in Australia.

At June 30, 1980, substantially all of the acreage located in British Columbia and the Yukon and Northwest Territories was covered by carried (net profits) interest agreements. These carried interest agreements provide that profits are not payable to the Company until expenditures by the operators have been recouped from production. Also, the Company may at any time elect to convert its position from a carried interest to a working





interest by paying its share of the expenditures not recouped by profits from production. At June 30, 1980 and 1979, the accumulated expenditures by the operators attributable to all of the Company's carried interests in these areas exceeded the amounts recouped from production by approximately \$15,300,000 and \$10,800,000, respectively. The aforementioned amount for 1980 differs from the amount previously reported in the Form 10-K because of additional information received after the filing of the Form 10-K. Two blocks, in which the Company's interest is 27.75%, have reached payout status. The Company's share of profits from these blocks was \$241,430, \$222,065, \$1,043,967, \$1,129,724 and \$958,252 for the five years ended June 30, 1980, which amounts have been credited to income. In fiscal 1980 and 1979, the Company received income of \$634,809 and \$338,967, respectively, from other carried interests.

The Company has a 30% carried interest in the Kotaneelee Field in the Yukon Territory. Four wells have been completed. The original discovery well was drilled in 1964 and required a significant amount of rework, which was completed in 1979. Approval has been granted by the Canadian National Energy Board to export a maximum of 84.5 billion cubic feet (Bcf) from the Kotaneelee Field over a period of eight years. During the first five years, the maximum amount will be 13 Bcf per year or 39.2 million cubic feet per day. Authorization by US authorities for importation of this gas has not yet been received.

Most of the Company's interests in the Arctic Islands are subject to carried interest agreements with

Panarctic Oils Ltd. The Company's carried interests range from 5% to 30%. Panarctic Oils Ltd. has requested that the Company consider converting some of its carried interests to working interests. The Company is studying the request.

### 3. The Catawba Corporation (Catawba)

For the four years ended June 30, 1979, the Company was charged \$362,320, \$309,171, \$300,069 and \$381 for financial, technical and other services rendered by Catawba. By virtue of Catawba's contracts with Canada Southern and the services Catawba performed pursuant thereto, and the fact that certain officers and directors of Canada Southern were also officers, directors or shareholders of Catawba, Catawba may have been deemed a "parent" of and to "control" Canada Southern, as such terms are defined in the Securities Act of 1933, as amended. By agreement between Canada Southern and Catawba dated May 10, 1978, the parties agreed to terminate as of May 31, 1978 their contract dated as of August 1, 1973. Certain of the directors, officers and employees of Catawba who were also directors or officers of Canada Southern have severed their relationships with Catawba. In view of the termination of the Catawba contract and the severing of these relationships, the Company believes that the statement that Catawba may be "deemed" to be a 'parent' of and to 'control' Canada Southern is no longer applicable.

### 4. Capital and stock options

Stock options outstanding at June 30, 1980 are summarized as follows:

| Optionee                | Date of grant | Expiration date | Number of shares | Option price |                    | Market price at date of grant |                    |
|-------------------------|---------------|-----------------|------------------|--------------|--------------------|-------------------------------|--------------------|
|                         |               |                 |                  | Per share    | Aggregate          | Per share                     | Aggregate          |
| Officers and director   | 5/11/79       | 5/10/84         | 54,500           | \$ 5.00      | \$ 272,500         | \$ 5.00                       | \$ 272,500         |
| Employees               | 5/11/79       | 5/10/84         | 7,500            | 5.00         | 37,500             | 5.00                          | 37,500             |
| Officer and consultants | 5/12/80       | 5/11/85         | 50,000           | 14.40        | 720,000            | 14.40                         | 720,000            |
|                         |               |                 | <u>112,000</u>   |              | <u>\$1,030,000</u> |                               | <u>\$1,030,000</u> |

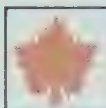
The options granted May 11, 1979 and May 12, 1980 were granted under an incentive option plan on 300,000 shares adopted by the Board of Directors on December 13, 1978. All options were exercisable on the date of grant. There were 156,000 and 206,000 shares reserved for future option grants at June 30, 1980 and 1979, respectively. During fiscal 1980, officers and employees exercised options on 22,500 shares at \$4.30 and 32,000 shares at \$5.00, an aggregate of \$256,250, compared with market prices ranging from \$20.78 to

\$22.00, an aggregate of \$1,178,476. There were no other changes in stock options during the two years ended June 30, 1980.

Upon exercise of options, the excess of the proceeds over the par value of the shares issued is credited to capital in excess of par value. No charges are made against income in accounting for options.

The letters patent, as supplemented, of the Company provide that no person (as defined) shall vote more than 1,000 shares.





## 5. Compensation

The Company has a contributory pension plan which is in effect for all employees and is administered by an insurance company. Benefits payable on retirement to employees are guaranteed by annuities purchased by the insurance company. The Company's policy is to fund pension costs accrued, except that total prior service cost for the plan was prepaid in 1979. Contributions by the Company to the pension plan on behalf of all employees were \$11,759, \$29,075, \$33,274, \$33,957, and \$33,867 for the five years ended June 30, 1980.

Compensation of directors, officers and senior employees allocated to and paid directly by Canada Southern, including contributions to a pension plan on their behalf, amounted to \$276,134 and \$324,349 for the years ended June 30, 1979 and 1980, respectively. Of these amounts, \$84,519 and \$100,849 were on behalf of directors and \$191,615 and \$223,500 were on behalf of officers. At June 30, 1980, there were five directors and four officers, of which one was also a director.

## 6. Income taxes and extraordinary item

The amount of income tax expense for fiscal 1980 is lower than the amount computed by multiplying pretax income by the statutory Canadian rate of 46% due to deductions for depletion and resource allowances.

For the three years ended June 30, 1980, the Company realized tax benefits of \$255,000, \$209,000 and \$205,000, respectively, for Canadian income tax purposes from carryforward of exploration, development and lease acquisition costs not claimed in prior years. At June 30, 1980, the following amounts remained to be carried forward indefinitely to reduce future taxable income:

|  |              |
|--|--------------|
| Drilling, exploration and lease acquisition costs .....                    | \$13,243,336 |
| Undepreciated capital costs ..   | 455,321      |
| Capital losses (can only be used against future years capital gains) ..... | 150,000      |

The tax benefits attributable to the above accumulated expenditures will not be reflected in the financial statements until such benefits are realized.

## 7. Possible direct ownership participations

In August 1980, the Board of Directors announced that consideration was being given to the feasibility of a plan whereby the Company's shareholders

would become the beneficiaries of direct ownership participations in certain of the Company's oil and gas producing properties.

## 8. Oil and gas revenue and reserve information (unaudited)

The following information has been supplied in compliance with regulations prescribed by the SEC. However, current reserve, production and cost estimates are subject to rapid and unanticipated change. Therefore, these estimates may not accurately reflect future net income to the Company.

The Company has no proved oil and gas reserves in Australia and no revenues from oil and gas production in that country. All amounts below relate to Canada.

### (a.) Revenues from producing oil and gas:

|                     |             |
|---------------------|-------------|
| Year ended June 30, |             |
| 1979 .....          | \$1,692,594 |
| 1980 .....          | 1,855,736   |

### (b.) Estimated net quantities of proved oil and gas reserves:

|   | Oil<br>(bbls.) | Gas<br>(bcf) |
|---|----------------|--------------|
| Proved reserves:                                  |                |              |
| July 1, 1978 .....                                | 471,001        | 52.822       |
| Revisions of previous estimates .....             | 295,205        | (2.170)      |
| Extensions, discoveries and other additions ..... | —              | —            |
| Production .....                                  | (81,481)       | (1.980)      |
| June 30, 1979 .....                               | 684,725        | 48.672       |
| Revisions of previous estimates .....             | 11,314         | (0.008)      |
| Extensions, discoveries and other additions ..... | 92,008         | 17.819       |
| Production .....                                  | (65,657)       | (2.355)      |
| June 30, 1980 .....                               | 722,390        | 64.128       |
| Proved developed reserves:                        |                |              |
| July 1, 1978 .....                                | 471,001        | 37.622       |
| June 30, 1979 .....                               | 684,725        | 33.595       |
| June 30, 1980 .....                               | 679,740        | 54.070       |

### (c.) Future net revenues from estimated production of proved oil and gas reserves:





(i.) Estimated future net revenues:

|                                    | <i>For the fiscal<br/>year ended<br/>6/30/81</i> | <i>For the fiscal<br/>year ended<br/>6/30/82</i> | <i>For the fiscal<br/>year ended<br/>6/30/83</i> | <i>For the remaining<br/>fiscal years for<br/>which reserves<br/>are projected</i> |
|------------------------------------|--|--|--|--|
| Proved reserves. ....              | \$1,765,000                                      | \$8,436,000                                      | \$15,539,000                                     | \$146,997,000  |
| Proved developed<br>reserves ..... | 1,760,00   | 8,387,000  | 15,165,000                                       | 137,618,000  |

(ii.) Present value (discounted at 10%) of estimated future net revenues.

|                     | <i>Proved reserves</i> | <i>Proved developed reserves</i> |
|---------------------|------------------------|----------------------------------|
| June 30, 1979 ..... | \$31,908,000           | \$24,599,000                     |
| June 30, 1980 ..... | \$86,252,000           | \$82,419,000                     |

Current prices used in the foregoing estimations were based upon selling prices at the wellhead in June, 1980. Current costs were based upon estimates made by consulting engineers in June, 1980. Values are predicated upon timely approval by U.S. authorities of import of gas from the Kotaneelee field.

**(d.) Summary of oil and gas producing activities:**

*(Thousands)*

|   |                 |
|---|-----------------|
| Additions and revisions to estimated proved reserves:   |                 |
| Additions to estimated proved reserves. ....  | \$23,563        |
| Revisions to estimates of reserves proved in prior years:   |                 |
| Changes in prices. ....   | 35,344          |
| Subtotal .....  | <u>58,907</u>   |
| Less:   |                 |
| Present value of estimated future development and production costs attributable to additions to estimated proved reserves ..... | 2,100           |
| Other costs net of income .....   | 737             |
| Development costs .....   | <u>607</u>      |
|   | <u>3,444</u>    |
| Net additions .....   | 55,463          |
| Provision for income taxes .....  | <u>26,400*</u>  |
| Results of oil and gas producing activities on the basis of RRA. ....   | <u>\$29,063</u> |

\*This provision for income taxes is only for purposes of RRA. The statutory income tax rate was applied to net

additions. All tax carryforward benefits and statutory depletion for development costs were assumed to be applicable to the estimated value of proved reserves at the beginning of the year.

**(e.) Summary of change in present value of estimated future net revenues:**

*(Thousands)*

|  |                 |
|--|-----------------|
| Present value at June 30, 1979 .....   | <u>\$31,908</u> |
| Increases during year:   |                 |
| Additions and revisions .....  | 58,907          |
| Less related estimated future developments and production costs attributable to additions to estimated proved reserves. .... | <u>2,100</u>    |
|  | <u>56,807</u>   |
| Decrease during year:  |                 |
| Sales of oil and gas, net of production costs. ....  | 1,856           |
| Development costs incurred. ....   | <u>607</u>      |
|  | <u>2,463</u>    |
| Present value at June 30, 1980 .....   | <u>\$86,252</u> |



## **Report of Independent Public Accountants**

### ***The Shareholders*** **Canada Southern Petroleum Ltd.**

We have examined the accompanying consolidated balance sheets of Canada Southern Petroleum Ltd. at June 30, 1980 and 1979 and the related consolidated statements of operations and accumulated deficit and consolidated changes in financial position for each of the five years in the period ended June 30, 1980 and of capital stock and capital in excess of par value for the two years ended June 30, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the consolidated financial position of Canada Southern Petroleum Ltd. at June 30, 1980 and 1979, the consolidated results of operations and the consolidated changes in financial position for each of the five years in the period ended June 30, 1980 and the consolidated changes in capital stock and capital in excess of par value for the years ended June 30, 1980 and 1979, in conformity with generally accepted accounting principles applied on a consistent basis during the period after restatement to give retroactive effect to the change, with which we concur, in the method of accounting for oil and gas properties as described in Note 1 to the financial statements.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

*Hartford, Connecticut*  
*September 3, 1980, except as to the last paragraph of*  
*Note 1 to the financial statements, as to which the*  
*date is September 18, 1980, and the last paragraph of*  
*Note 2 to the financial statements, as to which the*  
*date is September 26, 1980.*





## Supplementary and Market Information

Canada Southern Petroleum Ltd. was incorporated in 1954 (under the Canada Corporations Act) pursuant to the reorganization of Canada Southern Oils Inc. its predecessor company. The Company became subject to the Canadian Business Corporations Act in 1979; and the corporate charter subsequently was continued under the Companies Act, Nova Scotia, effective June 4, 1980.

The Company's shares of capital stock are listed and traded under the symbol "CSW" on the Toronto and Montreal stock exchanges in Canada and on the Pacific and Boston stock exchanges in the United States. The Company's shares are also traded under the symbol "CSPEF" in the NASDAQ over-the-counter market.

The total sales volume on the Pacific Stock Exchange for the years 1978 and 1979 amounted to 1,708,588 shares and 5,706,800 shares, respectively, and a quarterly price range for such shares during 1979 and 1980 follows (prices expressed in U.S. dollars):

|            | 1st<br>quarter | 2nd<br>quarter | 3rd<br>quarter | 4th<br>quarter |
|------------|----------------|----------------|----------------|----------------|
| 1979       |                |                |                |                |
| High ..... | 4 15/16        | 6 1/8          | 6 13/16        | 11 1/2         |
| Low .....  | 4              | 4 1/8          | 4 13/16        | 5 1/2          |

|            | 1st<br>quarter | 2nd<br>quarter | 3rd<br>quarter | *4th<br>quarter |
|------------|----------------|----------------|----------------|-----------------|
| 1980       |                |                |                |                 |
| High ..... | 26 5/8         | 16 1/4         | 19 1/8         | 16 7/8          |
| Low .....  | 9              | 11             | 12 7/8         | 13 3/4          |

\*through Oct. 21

The total sales volume on the Toronto Stock Exchange for the years 1978 and 1979 amounted to 6,377,018 shares, and 7,676,377 shares, respectively, and a quarterly price range for such shares during 1979 and 1980 follows (prices expressed in Canadian dollars):

|            | 1st<br>quarter | 2nd<br>quarter | 3rd<br>quarter | 4th<br>quarter |
|------------|----------------|----------------|----------------|----------------|
| 1979       |                |                |                |                |
| High ..... | 5.87           | 7.00           | 7.12           | 13.25          |
| Low .....  | 4.95           | 5.00           | 5.50           | 6.25           |

|            | 1st<br>quarter | 2nd<br>quarter | 3rd<br>quarter | *4th<br>quarter |
|------------|----------------|----------------|----------------|-----------------|
| 1980       |                |                |                |                 |
| High ..... | 30.50          | 18.62          | 22.00          | 20.00           |
| Low .....  | 9.62           | 13.12          | 15.12          | 16.37           |

\*through Oct. 21

## Management's Discussion and Analysis

### 1980 vs. 1979

Proceeds from carried interest agreements and oil and gas sales were higher because of improved prices. Interest income increased as a result of increased availability of investment funds.

General and administrative expenses increased in 1980 principally as a result of increased stockholders' expenses. The Company in both fiscal 1980 and fiscal 1979 made partial recoveries relating to an investment in a project previously written-off.

There were no abandonments in fiscal 1980. Rent expense increased due to the opening of an office by a subsidiary.

The Company pays no income taxes because of the carryforward of exploration, development, and lease acquisition costs not claimed in prior years.

### 1979 vs. 1978

The Company recorded its second consecutive profitable year in 1979, although revenues were down slightly because oil and gas sales and carried-interest proceeds were adversely affected by weak demand and refinery shutdowns early in the year. Interest income rose as the amount invested in time deposits increased and interest rates improved.

Increases in general and administrative expenses related to salaries and employee benefits as well as to legal and stockholders' expenses. Lease operating costs in 1979 increased due to inflationary pressures. The Company in the same year made a partial recovery relating to an investment in a project previously written off. The abandonments in 1979 included a mineral project in Saskatchewan. Depletion, depreciation, and amortization was higher in 1979 as higher cost properties were added to the amortization base.



CANADA SOUTHERN  
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